

Washington State Auditor's Office

Audit Report

Audit Services

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SNOHOMISH COUNTY FIRE PROTECTION DISTRICT No. 20

Snohomish County, Washington

January 1, 1993 Through December 31, 1995

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SNOHOMISH COUNTY FIRE PROTECTION DISTRICT No. 20
Snohomish County, Washington
January 1, 1993 Through December 31, 1995

**Independent Auditor's Report On Compliance With State
Laws And Regulations**

Board of Commissioners
Snohomish County Fire Protection District No. 20
Stanwood, Washington

We have audited the financial statements, as listed in the table of contents, of Snohomish County Fire Protection District No. 20, Snohomish County, Washington, as of and for the fiscal years ended December 31, 1995, 1994, and 1993, and have issued our report thereon dated December 12, 1996.

We also performed tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the district complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office.

Compliance with these requirements is the responsibility of the district's management. Our responsibility is to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the district and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an overall opinion on compliance with these requirements. Accordingly, we do not express such an opinion.

The results of our tests indicated that, with respect to the items tested, the district complied, in all material respects, with the applicable laws and regulations referred to in the preceding paragraphs. However, we noted instances of noncompliance with regulatory requirements immaterial to the financial statements which are identified in the Schedule of Findings accompanying this report. With respect to items not tested, nothing came to our attention that caused us to believe that the district had not complied, in all material respects, with those provisions.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

December 12, 1996

SNOHOMISH COUNTY FIRE PROTECTION DISTRICT NO. 20
Snohomish County, Washington
January 1, 1993 Through December 31, 1995

Schedule Of Findings

1. Snohomish County Fire Protection District No. 20 Management Should Comply With State Bid Laws

During our review of the district's compliance with state bid laws, we noted the following instances of noncompliance:

- In September 1993, the district solicited bids for a new addition to the fire station. The district published the required notice and selected the lowest bidder at a public meeting. The low bidder was AAA Custom Remodelers at \$19,753. However, the contract the district signed with AAA Custom Remodelers was for \$35,640.37. There was no documentation of specific changes to the project causing this price increase. In contracting with AAA Custom Remodelers for the increased price, the district invalidated the bid process.
- In September 1995, the district purchased a used Suburban for \$15,000 without publishing a notice requesting bids.

RCW 52.14.110 requires fire districts use a competitive bid procedure for all purchases in excess of \$10,000.

RCW 52.14.120 states in part:

Notice of the call for bids shall be given by publishing the notice in a newspaper of general circulation within the district at least thirteen days before the last date upon which bids will be received.

The district's failure to properly use competitive bidding procedures increases the likelihood that the district will not receive the greatest benefit from the tax dollars spent.

We recommend district management use competitive bidding procedures in soliciting public works contracts and purchasing materials, supplies, or equipment if the cost will exceed \$10,000. Furthermore, contracts awarded to the low bidder should be for the amount of the bid.

Auditee's Response

Fire District's Chief Darryl Neuhoﬀ, responded to the preliminary draft of our findings in a letter dated January 14, 1997. The responses follow.

Fire District No. 20 utilizes bidding procedures where required and in some instances where not required. It is now, and has been, the intent of the Board to arrive at the best value for the equipment and supplies it purchases.

AAA Remodelers was the accepted bidder as lowest cost and best proposed construction. Had the structure been able to remain as proposed, and time frames for construction not delayed by bureaucracies, the addition could have been completed within budget. However, as a result of a one year wait due to denial of permits and variances, (finally overturned by a unanimous vote of the Snohomish County Council), material building costs escalated. The final accepted structure required changes in construction methods, subsequently resulting in additional and more expensive construction material. Extensive discussions between the Board and AAA Remodelers were held, outlining changes and reasons for the request to increase the contract amount. The Board eventually agreed to the cost increase, realizing from their own experiences with construction, that this was still a good value, and that continued delays would serve no purpose other than to allow costs to continue to rise. It is still unclear to the Board if the contract should have been or could have been re-bid, as AAA Remodelers had already spent some time and money on the project.

The Board agrees that the documentation of the reasons for the contract price increase was inadequate, however, they still believe that the best value was received by the District. The Board also agrees that from an outward appearance, the failure to adequately document changes could be perceived as an attempt to circumvent the bidding process. This is completely and absolutely not the case. Nonetheless the Board has already indicated that any future public works projects shall be highly documented and well within the confines of the law.

The 1990 Suburban was purchased under the belief that this would comply with the "Sole Source Provider" exemption of the bidding laws. Purchasing of a used vehicle is a difficult process utilizing the bidding procedure, as the required time frames usually are not as expeditious as necessary to secure a "good value" used vehicle. The seller will usually have another buyer prior to the Districts' ability to provide a check.

After an exhausting search through may listings for used vehicles, the Board settled in on the one eventually purchased. This vehicle met all of the needs of the District, while maintaining a very competitive cost. Purchasing of a new vehicle was out of the question due to budgetary concerns and District needs. The use of the bidding process would have dragged out the purchase time frames beyond probable availability. Having considered all things, the Board felt comfortable with the selection and the use of the "Sole Source Provider" exemption. However, future activities such as this shall be more closely scrutinized for exemption status. Advice shall be solicited form the State Auditors Office in the future when the intent of the RCWs is not clear to the Board.

2. Snohomish County Fire Protection District No. 20 Management Should Not Make Advances Or Gifts Of District Funds

The district contracted with AAA Custom Remodelers for the construction of an addition to the fire station. Construction on the project started in December 1994 and ended in February 1995. During our review of the contract and the district's payments on the contract, we noted the following instances of noncompliance:

- The district made two advances to AAA Custom Remodelers for the fire station addition. The first advance was a \$700 payment on December 22, 1993. The second advance was a \$5,000 payment on December 16, 1994. Both of these advances were made before a contract was signed and work was started. We believe these advances constitute a lending of credit of the district's funds.
- On January 10, 1995, the district signed the contract with AAA Custom Remodelers for construction of the project referenced above. The contract total, including tax, was \$35,640.37. There were no significant changes in the scope of the project, which was completed in February 1995. On February 23, 1995, the district agreed

to increase the contract total by \$5,658.66 to \$41,299.03. Total payments for the project ended up being \$41,799.03. The additional \$6,358.66, above the contracted amount, we believe constitutes a gift of public funds.

Washington State Constitution, Article VIII, Section 7 states in part:

No county, city, town, or other municipal corporation shall hereafter give any money, or property, or loan its money, or credit to or in aid of any individual, association, company or corporation

We recommend the district make no further advances of district funds. We further recommend the district seek reimbursement of the \$6,358.66 in excess of the contract amount.

Auditee's Response

In regards to the \$700.00 payment, this was to cover costs incurred by AAA Remodelers in the area of architectural drawings. Since the work was completed and necessary for the permit process, the Board believes this to be reasonable and within the confines of the law. The term "advance" was sometimes used in documentation referring to the requirements of the contract; an advance of a portion of the total amount, but for services already rendered. Thus, this was not considered a gift nor a lending of credit. As for the \$5,000.00 payment, this was indeed prior to actual above ground structural work starting, however, it appears that the foundation was excavated and poured prior to the 9th of December, 1994. Though eventually paid directly by the District, over \$8,000.00 worth of work had been completed prior to the issuing of the \$5,000.00 draw. The Board recognized that the use of incremental payments, (draws based on work completed), is necessary when using small contractors who cannot bare the project cost until final acceptance. Verbal discussions with AAA Remodelers included acceptance of incremental payment based upon work completed. Once again, insufficient documentation resulted in the lack of inclusion of this agreement in the contract, as it should have been. The Board was also under the mistaken impression that since the project was accepted and agreements reached, that this too would not constitute a lending of credit. The contractual signing date took place after the request for payment, however, this was but an oversight and was rectified immediately upon discovery.

As far as the final contract price increase of \$6,358.66, this was at the request of AAA Remodelers. AAA Remodelers actually requested a larger increase, but the Board was not convinced that such an amount was appropriate. AAA Remodelers brought forth substantial documentation showing increased costs, many associated with District initiated changes, (cedar siding, steel door, roofing material selection, etc.). This coupled with the fulfilled request for AAA Remodelers to show receipts of purchases and subcontractors payments, enabled the Board to feel comfortable that the bulk of the requested increase was substantiated, necessary and fair. It was never the intent of the Board to force the contractor into Bankruptcy Court, regardless if he was a good estimator or not. In reviewing the final agreement/change order, it shows that the Board reduced the requested funding for overhead/contractor time costs, but approved the other cost increases. As such, the Board shall not seek reimbursement of the \$6,358.66.

The unfortunate situation here, is, that the requests for these changes and the discussions involving the final contract were not overly documented. This was a first time attempt at a project of this sort and magnitude for this Board and Staff. It was realized too late that contracting for construction work in the public sector cannot be done in the same fashion as the private sector. Each member of the Board and Staff had varying experiences with private industry construction, and used that knowledge to come to conclusions of what was correct and what was not. Future public works projects shall strive to conform to state statutes, and will be well documented. Outside expertise shall be sought for questionable situations.

Once again, the addition project was done with only but the best of intentions, and with the continuing belief that the best value for the District was sought and achieved. It was the past ignorance of the specific laws, improper documentation, and inexperience that resulted in the appearance of improprieties.

Auditor's Concluding Remarks:

We appreciate the officials' commitments to resolve the issues noted in our findings. Based on the responses, the recommendations are being addressed, and we will review these areas in our next audit of the district.

SNOHOMISH COUNTY FIRE PROTECTION DISTRICT NO. 20
Snohomish County, Washington
January 1, 1993 Through December 31, 1995

Independent Auditor's Report On Financial Statements And Additional Information

Board of Commissioners
Snohomish County Fire Protection District No. 20
Stanwood, Washington

We have audited the accompanying statements of Fund Resources and Uses Arising from Cash Transactions of the various funds of Snohomish County Fire Protection District No. 20, Snohomish County, Washington, for the fiscal years ended December 31, 1995, 1994, and 1993. These financial statements are the responsibility of the district's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial statements, the district prepares its financial statements on the cash basis of accounting that demonstrates compliance with Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the recognized revenues and expenditures of the funds of Snohomish County Fire Protection District No. 20 for the fiscal years ended December 31, 1995, 1994, and 1993, on the cash basis of accounting described in Note 1.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedules of Long-Term Debt are presented for purposes of additional

analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Brian Sonntag
State Auditor

December 12, 1996